EXHIBIT 1

S&P Global
Market Intelligence

Sprout Social, Inc. NasdaqCM:SPT

FQ4 2019 Earnings Call Transcripts

Wednesday, February 26, 2020 10:00 PM GMT

S&P Global Market Intelligence Estimates

	-FQ4 2019-			-FQ1 2020-	-FY 2019-			-FY 2020-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS
EPS Normalized	(0.34)	(0.25)	NM	(0.23)	(1.28)	(1.16)	NM	(0.65)
Revenue (mm)	27.28	28.14	▲3.15	29.33	101.75	102.71	▲0.94	131.43

Currency: USD
Consensus as of Feb-21-2020 4:22 AM GMT

	- EPS NORMALIZED -		
	CONSENSUS	ACTUAL	SURPRISE
FQ4 2019	(0.34)	(0.25)	NM

Table of Contents

Call Participants

EXECUTIVES

Joseph M. Del Preto
CFO & Treasurer

Justyn Russell Howard
CEO, President & Director

Ryan Paul Barretto
Senior Vice President of Global Sales

ANALYSTS

Alexander Kurtz
KeyBanc Capital Markets Inc., Research Division

Bhavanmit Singh Suri
William Blair & Company L.L.C., Research Division

Christopher David Merwin
Goldman Sachs Group Inc., Research Division

Richard Hugh Davis
Canaccord Genuity Corp., Research Division

Stan Zlotsky
Morgan Stanley, Research Division

Thomas Michael Roderick
Stifel, Nicolaus & Company, Incorporated, Research Division

ATTENDEES

Greg McDowell;ICR LLC;Managing Director

Presentation

Operator

Ladies and gentlemen, thank you for standing by. And welcome to the Sprout Social Fourth Quarter and Fiscal Year 2019 Earnings Conference Call. [Operator Instructions] Please be advised that today's conference is being recorded. [Operator Instructions]

I would now like to turn the conference over to your speaker today, Greg McDowell of Investor Relations. Please go ahead, sir.

Greg McDowell;ICR LLC;Managing Director

Good afternoon. And welcome to the Sprout Social's Fourth Quarter and Full Year 2019 Earnings Call. We will be discussing the results announced in our press release issued after market closed today. With me are Sprout Social's CEO, Justyn Howard; CFO, Joe Del Preto; and Senior Vice President of Global Sales, Ryan Barretto.

Today's call will contain forward-looking statements, which are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Forward-looking statements include statements concerning financial and business trends, our expected future business and financial performance and financial condition and our guidance for the first quarter of 2020 and the full year 2020, and can be identified by words such as expect, anticipate, intend, plan, believe, seek or will. These statements reflect our views as of today only, should not be relied upon as representing our views at any subsequent date and we do not undertake any duty to update these statements.

Forward-looking statements, by their nature, address matters that are subject to risks and uncertainties that could cause actual results to differ materially from expectations. For a discussion of the material risks and other important factors that could affect our actual results, please refer to the risks discussed in today's press release, our final prospectus under Rule 424 (b) filed with the Securities and Exchange Commission on December 13, 2019, our annual report on Form 10-K for the year ended December 31, 2019, to be filed with the Securities and Exchange Commission and our other periodic filings with the SEC.

During the call, we will also discuss certain non-GAAP financial measures, which are not prepared in accordance with generally accepted accounting principles. A reconciliation of these non-GAAP financial measures to the most directly comparable GAAP financial measures as well as how we define these metrics and other metrics is included in our earnings press release, which has been furnished to the SEC and is also available on our website at investors.sproutsocial.com.

With that, let me turn the call over to Justyn.

Justyn Russell Howard
CEO, President & Director

Thank you, Greg, and good afternoon, everyone. Thank you all for joining us on our first earnings call as a public company. This has been such an exciting time and experience for our team and our business and we really appreciate the time you've all spent with us so far. We're particularly excited not only about the results we'll be sharing, but also the undercurrent of energy and focus across the company in what was a uniquely busy quarter.

During today's call, Joe and I will provide details on our Q4 and full year 2019 results as well as Q1 and 2020 guidance. We will also spend a little time covering the business, market and opportunity, as many of you may be newer to the Sprout story.

But first, I'll kick this off with a few of the highlights of our financial results. Sprout had an excellent Q4 with strong performance and momentum across the entire business. We saw everything we wanted to see to set a strong foundation coming into 2020. Our total revenue, inclusive of simply measured for the fourth quarter was up 26% year-over-year to $28.1 million, and organic revenue grew 37% year-over-

year. As a quick aside, we'll be referring to organic revenue throughout the call, which is defined as all revenue excluding Simply Measured, a small acquisition which we completed in late 2018. Also worth noting that organic revenue accounts for 97.7% of our total revenue.

Now moving on to the full year. Total revenue, inclusive of Simply Measured was up 30% to $102.7 million and organic revenue was up 44% for the year. We ended 2019 with annual recurring revenue, or ARR, of $117.8 million and organic ARR of $115.2 million, up 39% year-over-year. Importantly, we delivered these results while continuing to drive leverage across the business with nearly 500 basis point improvement to our non-GAAP operating margin and nearly a 1,000 basis point improvement to our free cash flow for the year.

And to add a bit more color to these numbers, I want to spend a few minutes on some of the things that we're excited about coming out of the fourth quarter. First, we continue to see strong growth across every segment. Our ability to serve all segments from a single-code base and go-to-market strategy continues to drive strong unit economics and efficiency in our sales, marketing and R&D investments. We continue to make investments and serve the entirety of our addressable market across all segments, which continues to be a unique competitive advantage.

Next, our multiproduct strategy continues to deliver strong early results. We saw our social listening product pass $10 million in ARR in 2019, its first full year and believe we are just scratching the surface in that category. We also introduced our premium analytics offering in Q4 of 2019. And while that product is still very new, we're seeing strong appetite across our customer base and adoption that looks very similar to our listening product a few months after its introduction.

The legacy Simply Measured revenue has also become less and less of a headwind to our overall growth rate, representing only 3% of our total revenue in Q4 2019 compared to 11% of our total revenue in Q4 of 2018. As we exit 2020, we expect the difference between our organic revenue growth rate and our total revenue growth rate to be in the low single digits.

We've also seen our investments in selling back into our customer base gain momentum with our dollar-based net retention rate increasing to 110% overall and 120%, excluding SMB.

Finally, at year-end, we had 2,185 customers contributing over $10,000 in ARR, which was up 57% compared to December 31, 2018. This is a result of growing ACVs, larger initial deal sizes, account growth and marquee global brands increasingly seeking us out in the market.

Equally important to the quantitative results is the health of our team and culture. Sprout continues to be recognized as a great place to work, a leading product and for our strong leadership. The health of our organization and strong culture is one of our largest advantages. It's also fundamental to our ability to capture the massive opportunity in front of us and to innovate and evolve with the market.

Given this is our first earnings call, I'll spend a few minutes now summarizing our business, market opportunity and growth strategy for those of you new to the Sprout Social story.

Over the course of the last decade, nearly half of the world's population has come to rely on social media as a primary communication channel. More than 3.4 billion people across the globe are sharing their lives, ideas, values and opinions across social channels, posting, consuming and sharing billions of messages every day. They look to social media to find inspiration, discover products, make buying decisions and engage with millions of businesses around the world.

Following consumer demand, more than 90 million businesses are active in social media globally, largely driven by the fact that in order to serve the modern customer effectively, they have no choice. For the first time, consumers dictate when and where these conversations happen and it's increasingly happening on social media.

Consumers expect businesses to be active, compelling, engaged and available 24/7 across dozens of social networks. Brands have to be where their customers and potential customers are. And this has added tremendous complexity to our brand strategy and tooling.

We've all worked for decades, where phone, e-mail and traditional marketing were enough. Social is an entirely new channel and it isn't just one additional channel, it's several all at once with every network behaving differently, being used differently and with different technical requirements. In fact, our customers manage an average of 18 social profiles across networks every day. Without a centralized platform, this means 18 different places to monitor, engage, publish, measure and market 24 hours a day. It also means no centralized record-keeping, no concept of permission or workflows, no ability to analyze data across channels and no ability to effectively manage social across an organization. It also typically means broken customer experiences.

Sprout solves this problem for more than 23,000 customers around the world by putting everything they need to manage this increasingly complex and important channel in a single, elegant and powerful platform. We have quickly become a mission-critical system of record, where our customers spend an average of more than 4 hours every day, building stronger relationships with their customers, executing their marketing strategies, making better business decisions and effectively serving the modern customer.

Our customers rely on Sprout for all aspects of their social media strategy, all from a single platform, including engagement, publishing, analytics, listening and reputation. Our engagement tools bring all relevant social media messaging from all profiles and all connected platforms into a single inbox that access the social communication hub for our customers. They rely on these tools to engage with our customers and prospects to provide customer service, to acquire new customers and to create stronger relationships with the ones that they have.

Publishing content is another critical part of the modern marketing strategy and social has become the most effective channel to deliver it. Sprout helps our customers plan, create, publish and measure their content and campaigns across social channels to reach larger audiences and centrally manage all of their social publishing efforts.

Our customers also rely on us for a robust analytics suite, which allows them to measure the success of their efforts, to identify new opportunities, benchmark against their peers and make better business decisions. We have an industry-leading analytics suite in our core offering as well as our recently launched premium analytics offering.

More recently, we've expanded our platform to solve additional customer use cases, beginning with social listening in Q4 of 2018. These tools provide an unprecedented opportunity for businesses to better understand their markets and customers at massive scale.

Sprout's listening product allows our customers to analyze billions of data points across social media to drive insights that can help them better understand their customers, competitive dynamics, to conduct product research, measure brand health and make better strategic decisions. While traditional customer experience solutions focus on only the people we know, social data can tell us what the rest of the world and the customers, we don't have yet, are thinking.

We also introduced the V1 one of our reputation offering in Q3 of 2019 as a solution for our customers to centralize the measurement and management of customer reviews. Previously limited to using point solutions, our customers told us that they wanted to integrate those efforts into their day-to-day work inside of Sprout. Inside of 4 months, we built and delivered V1 of this offering, built organically into our platform and saw more than 1,000 paying customers adopt the new offering in the first 30 days.

Now zooming back out a bit to strategy, Sprout is unique in many ways, from our team, to our go-to-market strategy to the product and the technology behind it. We've been dedicated to being an amazing place to work and an amazing place to be a customer and to building extraordinary software from the very beginning. 10 years later, being laser-focused on these priorities has created several advantages that position us perfectly to lead this rapidly growing category.

First, our commitment to building exceptional products has earned us the top rating in every category in every market segment relative to our primary competitors, and according to more than 3,000 customer reviews on G2 Crowd. Our ability to serve all segments and use cases from a single platform and code base has also created significant competitive advantages. Our R&D investments go further and we're

able to quickly adapt to how rapidly social media has evolved. This also allows us to bring new products to market fast and more effectively, as demonstrated over the past 18 months, when we introduced 3 substantial new offerings while also driving R&D leverage.

We also lead with our product. While most of our competitors lead with demos, long sales cycles, customization and long deployments, the vast majority of our customers are using our products successfully before we even sign the contract. And this is highly disruptive to the sales efforts of our competition. And this leads to a few of our go-to-market advantages. We've been successful in every segment with a single platform in go-to-market strategy. Virtually, every business on the planet is impacted by social media and we've proven our ability to attract and serve customers of all shapes and sizes. We don't need to hope that we can effectively move into the SMB or enterprise, for example, we've done it effectively at scale and with great results in every part of the market. This also means all of our sales and marketing investments have maximum efficiency. We have something for everyone who shows up at our door and there is no waste in our process, which leads to great unit economics.

We're also fortunate to have a brand and reputation in the market that drives thousands of prospects to seek us out every month. More than 90% of our new customer revenue is driven by inbound interest, and more than 80% of that comes from unpaid sources. All of these advantages are why some of the best brands in the world as well as thousands of small and mid-market customers are choosing Sprout. We saw several examples of this in Q4 with some of our new customer wins.

Four Seasons is one of the world's premier luxury hospitality brands who continue to place their guests at the center of everything they do by providing a level of unmatched personal service.

And with Sprout Social, Four Seasons will provide that same level of world-class one-to-one service globally by meeting their customers on their preferred social channels across more than 100 of their global properties.

Univision is another great example. They are the leading multimedia company serving Hispanic America with a mission to inform, empower and entertainment its community. Like most broadcasters, they have seen their TV audience migrating online in recent years, and Univision saw a tremendous opportunity to publish its content across its more than 400 social profiles and reach its audience in a timelier and more engaging way. And they have chosen Sprout as their trusted partner on that journey. Some other notable new additions in Q4 include Vail Resorts, the Los Angeles Lakers and hundreds of other wonderful customers.

Finally, as we look ahead, we're very excited about the fact that we have a number of engines to drive future growth. First, we have a large nascent addressable market. Millions of businesses will require a centralized platform to manage social channels in the coming years, and we expect to capture a growing share of that market over time. Applying our current average customer value, or ACV, to the number of SMBs, mid-market companies and enterprises in the United States, as published by IDC, we estimate the U.S. TAM to be $13 billion. We believe the rest of the world opportunity to be as large or larger.

Second, we are still very early in our efforts to grow our existing customer base. With organic growth within our accounts, larger investments in growing those existing relationships and our ability to monetize additional products, we expect our existing customers to become a large contributor to our growth. Our expansion opportunities within our existing customer base are still relatively nascent as we've historically been focused on the product and our new business growth.

Third, in addition to expanding our relationships with existing customers, we're seeing new customers consistently coming in at higher prices and our additional offering should continue to increase our ACVs.

Fourth, only 29% of our revenue today comes from outside of the U.S. We see international expansion as a large opportunity as we increase our position in those markets and as those markets continue to mature in social media adoption.

And finally, over the long term, we expect to solve more adjacent problems for our customers, expanding our platform to tackle a very fragmented category.

Wrapping up, I'm extremely proud of the company that we've built. Sprout Social is driven by exceptional products, a world-class culture and a deep commitment to our customers. We are still very early in our journey, but we believe we're well positioned to capture a very large and expanding market.

And with that, I'd now like to turn the call over to our CFO, Joe Del Preto, who will walk you through the financial model and results. Joe?

Joseph M. Del Preto
CFO & Treasurer

Thanks, Justyn, and thanks again to everyone for joining us today. Since today's earnings call is our first, I'll start by providing a brief overview of our financial model, and then I'll go through our fourth quarter and full year results in detail before moving on to guidance for the first quarter and full year 2020.

Before discussing detailed financial results, I'd like to point out that in addition to our GAAP results, I'll be discussing certain non-GAAP results. Our GAAP financial results, along with the reconciliation between GAAP and non-GAAP results can be found in our earnings release.

As Justyn noted earlier, we shift all segments of the market from SMBs to global enterprises, all with a single platform and with a very efficient go-to-market strategy. We have a product-led sales model where we engage thousands of prospects every month and quickly convert them to customers. Our average sales cycle is approximately 35 to 40 days, even in our mid-market and enterprise segments. This efficient sales and marketing model has led to excellent unit economics and enables us to expand our investment and efforts in every market we serve.

We segment our sales teams like SMB, agency, mid-market and enterprise and is primarily inside sales today. We further break down our sales teams into both new business and growth reps. Our growth reps only work with current customers and are expanding these relationships by increasing adoption of our core platform and introducing our new add-on modules. This is a newer sales motion for us, as we only started making significant investments in this team in 2019. We're excited for the opportunity ahead for this group to continue to help our customers solve more problems with Sprout.

Our pricing model is very simple and scales with our customers' growing needs and provide several opportunities to optimize as our platform expands.

Customers choose a plan with the appropriate number of users, which is one of our value levers. Their spend also increases based on the number of social profiles they manage. Beyond the core plans, we also monetize our add-on modules such as listening, reputation and analytics. It's a simple model that gives us plenty of opportunity to monetize as we continue to deliver more value to our customers.

As the use cases of our customers continue to grow, we're seeing great success in monetizing our add-on modules. A great example of this is our social listing product, which launched in Q4 of 2018 and already had scaled over 1,000 paying customers. We believe that the increase in our dollar-based net retention rate from 2018 to 2019 demonstrates the increasing value that customers are experiencing from the use of Sprout.

Now turning to the quarter. We are pleased with this quarter's strong results. As Justyn noted, total revenue for the fourth quarter was $28.1 million, representing 26% year-over-year growth. Excluding the impact from legacy Simply Measured products, our organic revenue was up 37% year-over-year. This growth was driven by our increased demand from both new and existing customers and strong sales execution. We maintain a strong financial profile with high margins and 99% recurring subscription revenue.

As a reminder, we bought Simply Measured at the end of 2017 for its IP and talent. It gave us a great head start to build some of our newer products. It was a declining revenue business, which caused a temporary compression in our overall growth rates. As Justyn mentioned earlier, the impact of this legacy revenue in our overall growth rate is trailing off as expected, representing only 3% of our total revenue in Q4 2019.

For the full year 2019, total revenue was $102.7 million, up 30% year-over-year. Organic revenue was up 44%. Total annual recurring revenue, or ARR, at the end of 2019 was $117.8 million, up 27% year-over-year. Inorganic ARR at the end of 2019 was $115.2 million, up 39% year-over-year.

We had 627 net new customers in Q4 to finish the quarter with 23,693 customers in total. The number of customers contributing more than $10,000 in ARR reached 2,185, up from 1,965 at the end of Q3.

Discussing the remainder of the income statement, please note that unless otherwise noted, all references to our expenses, operating results and share count are on a non-GAAP basis and are reconciled to our GAAP results in the earnings press release that was just issued before the call.

In Q4, gross profit was $20.4 million, representing a gross margin of 73%. This compares to a gross margin of 76% a year ago and 73% last quarter. We are still in the process of shutting the redundant hosting infrastructure cost from the legacy Simply Measured product, expect gross margins to improve as we fully deprecate the product by the end of 2020.

Turning now to operating expenses. Operating expenses this quarter reflect investments in sales and marketing to expand our market reach, in research and development to extend our technology lead, investments to support being a public company. Sales and marketing expenses for Q4 were $12.8 million or 46% of revenue, up from 42% a year ago. As discussed earlier, we made significant investments in sales and marketing throughout 2019, focused on expanding our market reach and selling more into our existing customer base.

The investments that we made in 2019 in sales and marketing have started to be proven out, as demonstrated by our strong new customer growth and an increase in our dollar-based net retention rate. Our dollar-based net retention rate for the full year 2019 increased to 110%. Excluding SMB customers, our dollar-based net retention rate increased to 120% for 2019. We expect to continue to make smart investments as long as we continue to see strong returns on our sales and marketing spend.

Research and development expenses for Q4 were $6.6 million or 24% of revenue, down from 29% a year ago. We are able to drive leverage in this area as our approach to building software in our single-code base allowed us to focus our development efforts on bringing new solutions and capabilities to market for customers.

General and administrative expenses for Q4 were $6.9 million or 25% of revenue, up slightly from 23% a year ago. On a dollar basis, the growth in G&A was mainly a result of expenses incurred in anticipation of our initial public offering. We expect general and administrative expenses to increase in 2020, but to decrease as a percentage of revenue as we continue to scale our operations over time.

Non-GAAP operating loss for Q4 was $5.9 million or negative 21% operating margin, down slightly from a negative 17% operating margin a year ago. This result was better than our expectations and was driven by our efficient go-to-market strategy and in leverage, we continue to drive in R&D. For the full year 2019, our non-GAAP operating loss was $21.9 million or negative 21% operating margin compared to an operating margin of negative 26% in 2018. We are pleased with the 500 basis point improvement in operating margins, demonstrating the power and efficiency of our model.

Non-GAAP net loss for Q4 was $5.9 million or net loss of $0.25 per share compared to a net loss of $4 million or a net loss of $0.24 per share a year ago.

Turning to the balance sheet and cash flow statement, we ended Q4 and the year with $135.3 million in cash and cash equivalents, up $122.7 million from the end of Q3. This includes approximately $134.3 million in net IPO proceeds.

Deferred revenue at the end of the quarter and the year was $29.8 million, up 38% from a year ago. Looking at both our billed and unbilled contracts, our remaining performance obligations, or RPO, totaled approximately $42.1 million, up 55% from $27.1 million last year. We expect to recognize approximately 91% or $38.4 million of the total RPO as revenue over the next 12 months.

Operating cash flow in Q4 was negative $4.7 million compared to negative $4.9 million a year ago. Free cash flow was negative $4.9 million in Q4 for a negative 17% free cash flow margin compared to negative $5.1 million and a negative 23% free cash flow margin a year ago.

For the full year 2019, free cash flow was negative $15.2 million or negative 15% free cash flow margin compared to negative $19.3 million and negative 25%, respectively, in 2018. The nearly 1,000 basis point improvement in free cash flow margin was driven by our ability to drive more leverage in the business and are moved to more long-term contracts.

Moving onto guidance. For the first quarter of fiscal 2020, we expect total revenue in the range of $29.4 million to $29.9 million or a growth rate of 26% to 28%. We expect a legacy Simply Measured business to continue to be a headwind to our total revenue growth rate as our revenue runs off and estimate the delta between our total revenue growth rate and organic revenue growth rate to be in the high-single digits.

We expect non-GAAP operating loss in the range of $11.2 million to $10.2 million. We expect a non-GAAP net loss per share between $0.22 and $0.20, assuming approximately 50.5 million shares. For the full fiscal year 2020, we expect total revenue in the range of $131.7 million to $133.7 million or a growth rate of 28% to 30%. We expect the legacy Simply Measured business to continue to be a headwind to our total revenue growth rate in 2020 as the revenue runs off and estimate the delta between our total revenue growth rate and our organic revenue growth rate to be in the mid-to-high single digits.

We expect non-GAAP operating loss in the range of $29.3 million to $25.3 million. At the midpoint of our revenue guidance and operating loss guidance. This would imply a non-GAAP operating margin of 20.6% for 2020, an improvement of approximately 79 basis points over 2019. We expect a non-GAAP net loss per share of between $0.57 and $0.50, assuming approximately 51 million shares.
With that, Justin, Ryan and I are happy to take any of your questions. Operator?

Question and Answer

Operator

[Operator Instructions] Our first question comes from Chris Merwin of Goldman Sachs.

Christopher David Merwin
Goldman Sachs Group Inc., Research Division

Okay. And congrats to you all on the great first quarter out of the gate here. So in terms of my first question, I just wanted to ask about some of your newer products. You recently launched reputation and premium analytics. Can you maybe just talk a bit more about how the initial reception has been from customers? I know you were seeing a significant uplift to ACVs from listening, but just curious how we should be thinking about the monetization opportunity for reputation and premium analytics on top of that?

Justyn Russell Howard
CEO, President & Director

Yes, this is Justyn. I'll give you a little more color there. I think that the monetization opportunity for all of the additional offerings has been very positive. I think listening is obviously the one that we have the most tenure with and more recently, analytics, which is very similar in the sense that those are 2 higher price points, very kind of robust offerings that we expect to behave relatively similar in terms of the amount of deal size increase when those products are added, similar buying cycle. One thing that I will call out, I think that the analytics product, which is new is potentially a bit of a -- closer to the sweet spot for our customers, meaning they're using our product for analytics today. They're looking for more horsepower. And we have an opportunity then to very quickly introduce them to that add-on and monetize those. Listening is a little different in that those are completely new capabilities within our platform. So it's a little bit more educational, et cetera. Those, as I mentioned, behave very similarly in the sales process, the price point, et cetera.

Reputation, which is -- has been a fantastic offering and we talked a bit about what the adoption looks like for that early on. That was a little bit different and that the activation of that offering is very self-serve. It's real time, the customer can go in and activate that. There is certainly some education that happens when we're selling that, whether during the trial or in our growth efforts, but much lower friction adoption. It's simply a function of going and adding additional profiles, which we monetize. Smaller price points, I think, on the whole than what you're going to see from listening and analytics. But all 3, we've been incredibly happy with the -- both the early adoption, our ability to improve what those sales processes look like. And I think the one other thing worth noting on all of those is that those are really early in their life in terms of our continuing to build and expand on the listening, increasing the capabilities of analytics, which is very new, introducing new capabilities around reputation. So coupled with the early traction that we've seen, which we're very happy with, plus the amount of time that they've been in market and the amount of opportunity that we have to continue to improve, those offerings is really exciting for us.

Christopher David Merwin
Goldman Sachs Group Inc., Research Division

Okay, that's great. And maybe just one follow-up. I was just hoping to hear more about your traction with larger enterprise accounts. I know you added some sales heads to focus on that segment. Where are you finding fit so far within that segment? And what type of feedback are you getting from those customers about even potential new features that you can add over time?

Ryan Paul Barretto
Senior Vice President of Global Sales

Chris, this is Ryan. I'll address that question. We've seen really great success in that enterprise space. I think what's been highly disruptive for the market and specifically, enterprise software is that we lead with the product. So even in the enterprise with these large accounts like the Four Seasons of the world, we're

actually getting their hands on the product immediately. We're getting them into trial, we're getting them to test out the solution before they actually commit to a contract. And that has worked really well for us because we're able to prove the advantage of the technology and the benefits of the user interface as well as the depth and strength of our reporting and listening solutions. So we've seen tremendous progress there really across the globe with all of those opportunities. The additional products have really helped on the conversion rate as well. To Justyn's point, the adoption is telling us that our customers want all these products in one platform, listening, analytics, reputation alongside of your publishing and engagement. And so that's been really helpful for our enterprise team and our go-to-market strategy.

Operator

Our next question comes from Stan Zlotsky of Morgan Stanley.

Stan Zlotsky
Morgan Stanley, Research Division

And congrats on your first quarter as a public entity guys. So from my end, 2 questions. One, the international opportunity, right? It's still only 20% of revenue, it's international. What are you guys seeing out there? And how are you thinking about this piece of the business heading into 2020? And then two, the big sales and marketing investments that you made through 2019. What are you seeing there as far as the ramp in productivity and how are you thinking about your sales and marketing organization into 2020? That's it.

Ryan Paul Barretto
Senior Vice President of Global Sales

Great. This is Ryan. I can tackle both of those. On the International side, we are really excited about the opportunity that exists there. The total addressable market is at least as big as we're seeing in the U.S. It's a healthy portion of our business today. But I think it's important to note that historically, that's really come with very little investment outside of North America. Traditionally, we've been covering that market with folks here in our headquarters in Chicago, both from a sales and marketing perspective. So we actually just launched our first real investment within that international community by launching an office in Dublin this past year with most of those investments coming in the second half of 2019. We're really excited about the progress that we've seen the ramp from the reps, the productivity, which we saw in Q4 with accelerating international growth. And that ties to the investments that we're making on a go-to-market -- from a go-to-market perspective. So international was a big one last year, specifically that Dublin office. Joe mentioned it before as well. We had quite an investment in the growth team. So that's the team specifically focused in on selling to our 23,000-plus customers. And then in the mid-market and enterprise space, where we've seen a lot of progress and demand.

Stan Zlotsky
Morgan Stanley, Research Division

Perfect. And just the team specifically, the big investments that you made in the U.S., right, the other 80% of revenue, what kind of productivity improvements have you seen here?

Ryan Paul Barretto
Senior Vice President of Global Sales

The productivity has been really strong year-over-year, led by the mid-market and enterprise space, but strong improvements across the board.

Operator

And our next question comes from Alex Kurtz of KeyBanc Capital Markets.

Alexander Kurtz
KeyBanc Capital Markets Inc., Research Division

Thanks for taking the question here on your first earnings call. Justyn, maybe it will be helpful to go through the competitive landscape and maybe a quick refresh on how you guys differentiate yourself and maybe what you saw in the quarter and how that may have helped the larger customer execution that we saw in the numbers?

Justyn Russell Howard
CEO, President & Director

Yes, definitely. And Ryan may have some color to add to that as well. So the competitive landscape has been, and really, this has been kind of building momentum, I would say, over the last 18 months. A lot of the, I'll call them, stubborn commitments we've made on the product side, making sure that we are building something that is very easy to use across the organization, very easy to deploy and implement. I think that, that has only become a bigger and bigger headwind, particularly when we think about the mid-market enterprise and the folks that we're competing with there. So there's another shift happening, which is that, as you can see by the growth in our ACVs, particularly when we've got additional products in there, social is something that's spreading further across the organization. And that means that it's critical that it's incredibly easy to use and deploy. If you've got sales teams, customer service teams, other folks that are not -- have not been working in social media management tools day in and day out, that simplicity and ease of use is incredibly important. And so what we're seeing a lot in the competitive space is deployments that are a year or 2, 3 years old, have really struggled to meet those requirements across a larger part of the organization, difficult deployments in general, underutilization and for technical reasons. And we're seeing this kind of second-generation of buyers coming back to the market, saying, "Okay, we said a few years ago, we needed to solve this problem. We gave it a good try, but now we need something that our team can actually use and be successful with." That's often, especially in the cases where we're in competitive takeaway situations, often where we're coming into that cycle. And that process that Ryan mentioned earlier of us being able to say great. Let's put your hands on the keyboard. Let's make sure it works for everyone. Let's make sure it does exactly what it's supposed to do. And then you're going to be off to the races in a matter of days or weeks, has been incredibly powerful. And what we've seen is, those challenges that I mentioned of the long deployments and the customization, et cetera, only seem to be increasing for the majority or, if not all of the competitors that are in that -- those parts of the market.

Additionally, on the SMB and lower in the market, I think just that inbound funnel is incredibly valuable to us, the ability for folks to get in and have a frictionless sale, but also getting support and one-on-one attention when they need it. Those are probably some of the people that needed the most, has been a great tailwind for us in that part of the market as well. And so backing up kind of like to the original part of my response, I think the decisions that we've made and the things that we've been very committed to making sure that we maintain on our platform as well as our sales process and how we engage with customers is really starting to bear fruit and I think gaining momentum as we head toward the end of last year and it's been built, and frankly, I'd say, for the last 12 to 18 months.

Ryan Paul Barretto
Senior Vice President of Global Sales

Yes. Just to add a couple of quick points. So I think case in point for Justyn on the enterprise side, Four Seasons, which you talked about a great example, Q4 deal for us, a company that's already up and running in our software. They were in the trial before they bought and we finished the implementation. Now our team was out there this week, which is just a great testament to such a large deployment being up and running and using our software.

On the SMB side, the other piece that I would just highlight there is more and more we're seeing that even these smaller customers want all of the products, right? They're consuming our reputation and are listening in our premium analytics and typically, what's been available to them in other SMB solutions doesn't have the depth and breadth that Sprout has to offer.

Operator

And our next question comes from Bhavan Suri of William Blair.

Bhavanmit Singh Suri
William Blair & Company L.L.C., Research Division

Just a great quarter coming out of the gate there. So nicely done, and I apologize for the background noise. I'm sitting over here, so just bear with me. I guess, I wanted to touch first on the NDRR strength, the Net Dollar Retention Rate strength, there was a pretty dramatic increase from '18. And I know you sort of touched on a variety of factors there. But I'd love to understand a little more color of how much is it sort of cross-sell listening and some of the new models reputation analytics driving it versus deep growth in upsell? How should we think about what that mix looks like? I mean, how does -- how do you think about 2020 progress on the NDRR metric? And then I have a quick follow-up.

Justyn Russell Howard
CEO, President & Director

Yes. This is another one where Ryan may certainly have some color to add. I think when we think about the improvements there, I think we're improving on kind of both components of that being retention as well as growth. I think, certainly, with the higher quality customers that are making up a larger population of our customer base, the add-ons, the higher deal sizes, et cetera, growth is going to be the disproportionate contributor there. But we're also seeing improvements in the rest of the components of the net dollar retention. So keeping customers longer, et cetera. I think a lot of that has to do -- well, there's aspects for both of those. One is, prior to really the end of 2019, we had not been in -- actively supporting and onboarding customers at low dollar figures as soon as they bought. So we've started making that investment in 2019. We've seen that starting to pay off where every customer that buys from us now has an opportunity to work with someone on our team to make sure that they're fully utilizing the product to make sure that they're adopting all of the things that they can be getting value from. And so that's great for that kind of those -- that early retention and building a strong relationship for a lifelong customer there. And then on the growth side, those investments that we're making in the -- with the growth team specifically and a lot of the -- not only the folks that we've hired, but just developing our muscles and our playbook around what it looks like to reengage with customers who may have been spending money with us for years, but opening up those opportunities and expanding those relationships in pretty dramatic ways.

Ryan Paul Barretto
Senior Vice President of Global Sales

Yes. And this is Ryan. Just -- the only piece that I'd add on here is on top of the onboarding and the expansion from that new growth team -- that new focus growth team as well as the new products coming on board. As you might imagine, as we add additional products to the portfolio, we're solving more and bigger problems for those customers. It's also having a great impact on retention. So all those things combined are having strong improvements for us and we feel really good about the upcoming year.

Bhavanmit Singh Suri
William Blair & Company L.L.C., Research Division

Got it, got it, got it. And then there was a quick one there, just direction of how NDR wants to go and how you think about NDR trending over 2020. I'll leave that to Joe, but one quick one for you Ryan while I have you is, on the sort of funnel here. You added about 500, 700 customers quarterly basis this year, fairly consistent with the historical adds. I guess, as you look into 2020, how do you think about opening the top of that funnel and sort of increasing the number of customer adds as you make those marketing investments are very effective on the sales? Like, how do you -- we should think about that?

Justyn Russell Howard
CEO, President & Director

Yes. I would say that certainly, we're happy with the consistency there. What we're really focused on is the revenue contribution of those adds. The -- certainly, the absolute value is important. And certainly, if we wanted to really to use those numbers up, there's lower price points, et cetera. But we're focused on making sure that the overall revenue contribution of the adds within those quarters is continuing to increase. That also gives us, as I referenced a little bit earlier, just an overall healthier customer base, the

folks that are coming in at higher price points, they're less volatile, they're more likely to grow, et cetera. So we're thinking about, I think, the quality and the revenue contribution of those adds more so than the net amount. Of course, I think that's important for us to keep an eye on. But what we're seeing in billings growth, revenue contribution for the quarter, ARR growth, et cetera, is probably to think that we're more focused on in terms of customer additions.

Operator

And our next question comes from Tom Roderick of Stifel.

Thomas Michael Roderick
Stifel, Nicolaus & Company, Incorporated, Research Division

And congratulations on a great first quarter out of the gates. Justyn, let me throw this one at you, and I appreciate you guys breaking out the impact of Simply Measured on the -- in the legacy business going away. What I'd love for everyone to understand and get a little bit more detail from you is just, can you talk through how the mechanics of Simply Measured sort of coming out of the revenue stream work? And by that, I mean, how are these customers churning off, gathering you've turned the products off or at least our sunsetting them? But then what are the mechanics of being able to sort of upsell, cross-sell to that installed base? Just take us through that and how that can ultimately perhaps even positively impact the newer enterprise listening products?

Justyn Russell Howard
CEO, President & Director

Yes, yes, definitely. So with -- in terms of kind of how that is unfolding within the organization and the customer base. We made a conscious decision in Q4 to really be aggressive about the end-of-life of that product. We have not turned it off yet. But when we look at the small dollar amounts, which are obvious in the breakout there relative to the cost of overhead of supporting that product. The opportunity cost of getting them on a new or more modern product, et cetera. We felt like that was the right trade-off to make. So both internally, in terms of technical resources and also in conversations that we've had with our customers, we've made it pretty clear that, that product is going away. And we're looking to not only move them to what we feel is a better product, assuming that their used case matches, but also, again, to shed a lot of that overhead and infrastructure cost related to that. So we're seeing that happen. And I think the way that, that plays out in terms of customers and our opportunity to get them up or out is largely a function of Simply Measured had to a portion of their customer base that they serve, that is not our target customer. It's not necessarily the use case that we intend to continue to serve. So that's where a lot of the expected burn off comes from. And then Ryan's team is engaged with all the folks where we feel like we've got an opportunity, not only to get them moved over to the new product, but then also get them adopting the rest of our products. So we're actively having those conversations. We've got a team of folks that are dedicated to having those conversations. You may have a little to add on that. I'm not sure. No, Ryan shaking his head. He said, I covered it well.

Thomas Michael Roderick
Stifel, Nicolaus & Company, Incorporated, Research Division

Perfect. So Ryan, may get a chance to chime in on this one, but my follow-on on that and looking at that $10 million ARR number you offered up on listening, that's a pretty needy number for kind of first year out of the gates for a product like that. We'd love to understand, when you look at the construct of those customers, how much of that customer base was sort of upsell, cross-sell to your installed base versus net new? And then how would you encourage us to think about how that business can grow as we look ahead to 2020 of that $10 million base?

Ryan Paul Barretto
Senior Vice President of Global Sales

Yes, I can start. This is Ryan. It's pretty well balanced across new business and then growth within our existing customer base. From a new business perspective, what's been really exciting for us. And actually, this applies to growth as well. What's been really exciting is that we're able to sell the product into every

segment? So it's -- traditionally, listening has been just an enterprise-type product. But we're seeing great demand from our SMB, our mid-market and our agency as well. So -- and Justyn alluded to this at the beginning of the call, it's definitely contributed to the growth in our ACVs. So lots of progress there on the new business side. We're landing larger customers, they're buying more products. And then on the growth side, we've got this growth team now that we really spun up in 2019. That's going back after the 23,000 customers that we're really just using the core product and they're able to go in and sell the value of that social data and listening. So seeing great success on both sides and continuing to see really good progress every month across all segments, both on new and on the growth side.

Justyn Russell Howard
CEO, President & Director

And thinking about kind of the longer opportunity, I think it's, I think, too early to pick a number for it or to it. But as Ryan mentioned and we talked about earlier, the demand that we're seeing across all of our segments, the fact that this isn't something for just the largest enterprises, makes us think that those early adoption numbers, 1,000 customers using those products, et cetera, have a lot of room to grow within that existing customer base. And I also think it's really important. And as we think about our investments for 2020, to remember that this is V1 of these products essentially, right? This is us making a debut. This is us getting that V1 in the market not to suggest that we don't constantly iterate on those, but we have a lot of headroom, a lot of room to grow on those offerings. And we're pretty excited about across the board for reputation, listening and analytics, some of what we've got in-store that we think could be meaningful for those -- for all 3 of those offerings.

Ryan Paul Barretto
Senior Vice President of Global Sales

And I'll just quickly just from a sales perspective, give a shout out to our product team, because the way that they've built this product, it's so approachable that the business user, the end user is actually able to leverage that listening tool, which has been pretty different from what's traditionally existed in the marketplace, where you typically needed someone who is very technical in nature or consultant to make it work. And we have marketers using it and using it real time.

Operator

[Operator Instructions] Our next question comes from Richard Davis of Canaccord Genuity.

Richard Hugh Davis
Canaccord Genuity Corp., Research Division

Maybe we'll do a first to riff on Stan's question. I'm just wondering, is social media impact and methodology kind of uniform between countries? In other words, are there levers -- are the levers the same? Or are they more effective if you're in France? Or do you care more about other things? And I'm just trying to kind of think about this because I wonder how it affects the feature adoption overseas?

Justyn Russell Howard
CEO, President & Director

Yes. It's interesting. I think it has a lot to do with, obviously, the maturity of social and some of our other opportunities around the world. We also see that there are different consumer behaviors. For example, in some cases, the U.S. is a bit behind in terms of what brands and consumers are doing with each other over social channels. And so it's going to be a bit nuanced by region. For example, I think Europe tends to look a lot like North America in terms of adoption rates and how it's used, et cetera. I think when we look into some of the markets in South America, adoption, maybe at a lower rate, but reliance on social as a primary communication channel becomes more interesting. There are obviously impacts in terms of what the output and kind of collective revenue of those brands or businesses operating in those local regions might be and their ability to spend. So we'll continue to kind of fuel that out. But the good news is that we've seen fantastic adoption with great unit economics in all of the markets that we're currently in. And so we think as we continue to refine that playbook, make those investments in market and -- as well as

some of those markets just getting more mature, that it's likely as large or larger today with even more upside relative to the U.S., we think long term.

Richard Hugh Davis
Canaccord Genuity Corp., Research Division

Got it. That's super helpful. And then just -- we've asked a bunch of questions on this already in this call. But on the customer success, do you have enough data yet to know kind of what the good salespeople have, like killer sales point to get people to upgrade or upsell? Is it hard dollar ROI, speed-to-market, have you found like I joined the firm as a customer success rep or what would be my killer thing that I would use?

Justyn Russell Howard
CEO, President & Director

Yes. Richard, are you looking for like kind of what's the catalyst for that growth conversation?

Richard Hugh Davis
Canaccord Genuity Corp., Research Division

Yes. Exactly, yes like what's -- what gets me over the hump?

Ryan Paul Barretto
Senior Vice President of Global Sales

Yes. From a current customer perspective, the good news is, we have just so much data, right, with 23,000 customers. Our customers are living in the application every day. It is truly the place that they come in and they do their work. So we've got a good read on where customers are spending their time in the application today, how much they're publishing, how they're engaging with their customer base. And truly, especially on the listening and the analytics side, it's about the data, right? The opportunity to share them, how they might be able to better utilize the data and the analytics that live within the social profiles they own today. But also the opportunity to tap into that huge corpus of social data that exists through listening. So for us, it's really looking at the way that they're utilizing the tool today, how engaged they are on social, and that gives our customer success team and our growth team a great indication of where they should be prioritizing their time. And we're just tapping into the data side of being able to show them what that data might be able to give them in terms of how they compete against their competition, how they generate content, how they might want to market. So it's using the data in the application. And then from there, it's showing them how that data might help them grow their business.

Justyn Russell Howard
CEO, President & Director

And on the customer side, I'll add, the catalyst, what we're seeing often is additional departments that are being brought into social. It may have historically lived within marketing or a subset of marketing. We're seeing expansion there. Consolidation of tools, they want to be able to do these things in one place. They don't want to have separate reputation in publishing and engagement tools as well as just the, sort of, internal importance of social. And to a smaller degree, but still an important inflection point, I think, for customers is, there are more networks that their customers want them to be responsive and involved in. Everyone you add starts to get incrementally more difficult to do that at scale without Sprout. So I think those are some of the drivers that are happening within our customers' organization that are leading to productive conversations on that front.

Operator

And ladies and gentlemen, this does conclude our question-and-answer session. I would now like to turn the call back over to Justyn Howard, CEO and Co-Founder, for any closing remarks.

Justyn Russell Howard
CEO, President & Director

All right. Yes, thank you all so much, not only for your time today, but all of your time along the journey and the time spent with us to understand the story and hear more about Q4 as well as what we want to do in the coming year. Also certainly, I want to thank our employees, our customers and our partners for the hard work and support, very busy, uniquely busy quarter in getting this company out into the public market, but also just fantastic from a momentum perspective. The market opportunity continues to be incredibly exciting, the momentum that we're building heading into 2020 and we look forward to talking more about how that's going, when we speak to you all again next quarter. Thanks a lot.

Operator

Ladies and gentlemen, this concludes today's conference call. Thank you for participating. you may now disconnect.